# Financial Institutions Commission

# Service Plan

## 2002/2003 - 2004/2005

BRITISH COLUMBIA

Ministry of Finance

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## SECTION 1: INTRODUCTION

The Financial Institutions Commission (FICOM) was created with the merger of the Office of the Superintendent of Financial Institutions (SOFI), a part of the then Ministry of Finance and Corporate Relations, and the Credit Union Deposit Insurance Corporation (CUDIC), a crown corporation. The initial merger took place in 1988, however, the Financial Institutions Act, the defining statute of the Commission, was proclaimed on September 1, 1989. This statute brought the regulation of credit unions, insurance, trusts, and deposit insurance coverage for credit unions under one legislative act.

In conjunction with this move, modern capital requirements and governance standards were introduced that remain among the best in Canada. British Columbia was the first jurisdiction in Canada where the regulation of financial institutions and the provision of deposit insurance were made the responsibility of a single regulatory body. Such a regulatory structure was the principal recommendation of the 1986 Estey Report on the collapse of the Canadian Commercial Bank and the Northland Bank.

Commencing in 1988, the Superintendent of Financial Institutions also served as the Superintendent of Real Estate and the Registrar of Mortgage Brokers, with dedicated staff to assist in the administration of these programs. These functions were previously performed by the Superintendent of Brokers, but were transferred to SOFI when the British Columbia Securities Commission was formed in 1987.

FICOM currently has responsibilities under ten different statutes:

- Financial Institutions Act
- Credit Union Incorporation Act
- Insurance Act
- Insurance (Captive Company) Act
- Insurance (Marine) Act
- Community Financial Services Act
- International Financial Business Act
- Mortgage Broker Act
- Real Estate Act
- Strata Property Act

Responsibilities for regulating real estate agents and salespersons, and property managers are delegated to the Real Estate Council of B.C. The Insurance Council of B.C. is responsible for regulating insurance agents, salespersons and adjusters.

The activities of FICOM are primarily funded by fees and assessments charged to industry. As a self-funded agency, FICOM is covered by a $1,000 vote in the provincial government's budget.

# SECTION 2: STRATEGIC CONTEXT

## VISION

To be the most progressive and cost-effective financial and real estate services regulator in Canada, protecting the public interest, keeping pace with industry change, and leading effective regulatory reform.

## MISSION

Maintain confidence in British Columbia's financial services sector by effective regulation.

## VALUES

FICOM staff has an established and strongly supported values statement:

### FICOM VALUES

- **We work together to achieve FICOM's goals.**
- **Our actions match our words.**
- **We help each other.**
- **We tell each other what we think.**
- **We listen to each other.**
- **We respect each other.**
- **We show confidence in each other.**
- **We value results over activities.**
- **We share information.**
- **We learn from our mistakes.**

## SECTION 3: PLANNING CONTEXT

The financial services sector operates within a complex environment. As British Columbia's regulator of these services, FICOM faces a wide array of external and internal challenges.

### EXTERNAL CHALLENGES

#### Technological Advances

The Internet presents substantial challenges for financial services regulators.

- Unauthorized offshore companies can now utilize the Internet to provide services directly to B.C. residents and evade regulatory scrutiny.
- National and international financial services firms are increasingly moving towards call centres located outside of BC to service BC residents.
- Provincial credit unions are taking steps to expand their business outside of BC, often relying on technological opportunities that have only recently arisen.
- New technologies are making traditional branch structures less cost-effective for financial institutions. This development is prompting them to withdraw from smaller communities, particularly in rural areas, with significant ramifications for customer service and competition.

#### Demographic Shifts

Two significant demographic shifts will have a substantial impact on the financial services sector in British Columbia in the coming decades.

- The aging population will cause financial institutions to focus on "wealth management" to a much greater extent. The security of savings and retirement funds will be even more important, and pooled savings techniques such as mutual funds will provide competition to the traditional savings accounts offered by deposit-taking institutions.
- The population decline in some rural communities will make them less desirable to financial institutions for business development, and further issues related to customer service and competition may arise.

#### Economic Pressures

Although the BC economy is now improving, it has faced a host of economic pressures in the past several years with many industries, such as forestry, tourism and high-tech, having confronted particularly strong challenges. It is notable for FICOM that periods of severe economic pressure have historically yielded significant residual challenges for financial services regulators.

### Industry Consolidation

Numerous mergers and acquisitions amongst firms in the financial services sector have occurred in recent years, both amongst FICOM regulated institutions and amongst federally regulated institutions. These moves offer both benefits and challenges for financial regulators, particularly with regard to consumer issues and the complexity of regulatory activities.

### Product and Other Innovations

Insurers and deposit-taking institutions have recently increased promotion of a number of new and innovative products, including expanded group insurance, segregated funds, index-linked deposits, reverse mortgages, and pet insurance. Moreover, financial derivative instruments have become increasingly popular risk management tools. These types of innovations warrant regulatory attention.

### Public Information

The increasing complexity of financial services and the ongoing dangers of financial fraud present many challenges for FICOM in its efforts to inform the public about the consumer issues associated with financial services. The recent investment scandals in the United States involving Worldcom and Enron, which saw many investors fall victim to fraud, have prompted U.S. regulators to introduce more regulations related to financial disclosure. Some regulators in Canada have suggested similar moves in response to current public sentiment.

### Federal Government Initiatives

As the federal regulator of banks, insurance companies and pension funds, the Office of the Superintendent of Financial Institutions, operating under the Federal Ministry of Finance, has considerable influence on the financial services sector. FICOM must monitor federal policy and regulatory initiatives carefully for their impact on British Columbia.

## INTERNAL CHALLENGES

### Transition to Risk-Based Regulation

Like many other financial services regulators, including Canada's federal regulator, the Office of the Superintendent of Financial Institutions (OSFI), FICOM has committed to implementing a risk-based regulatory model and moving away from a traditional compliance-based model. This move presents significant challenges involving organizational restructuring, recruitment, and professional development.

**Staffing, Recruitment and Professional Development**

FICOM faces significant human resources challenges at this time. A relatively high-turnover rate and ongoing vacancies are reflective of remuneration rates that are not competitive with private sector employers. Recruitment of new staff is increasingly difficult and, with the average age of FICOM employees currently at forty-seven, this problem will be further exacerbated in the oncoming years. Moreover, the move to risk-based regulation will require substantial retraining and education for existing staff.

**Information Systems**

FICOM's current information systems are inadequate for current requirements and the move to risk-based regulation will generate new information systems requirements. Substantial capital investment and management resources will be required to upgrade FICOM's information systems.

# SECTION 4: ORGANIZATIONAL STRUCTURE AND ORGANIZATIONAL GOALS

## ORGANIZATIONAL STRUCTURE

FICOM is organized into five departments that all report to the CEO. These departments are as follows:

**Credit Union and Trusts**

Responsible for the regulation of credit unions and trust companies under the Financial Institutions Act, Credit Union Incorporation Act and Community Financial Services Act.

**Insurance**

Responsible for the regulation of insurance companies under the Financial Institutions Act, Insurance Act, Insurance (Captive Company) Act, Insurance (Marine) Act, and International Financial Business Act. Responsible for working with the Insurance Council of B.C., which oversees licensed insurance professionals.

**Real Estate and Mortgage Brokers**

Responsible for some regulatory activities under the Real Estate Act, the Mortgage Brokers Act, and the Strata Property Act. Responsible for working with the Real Estate Council of B.C., which oversees real estate agents and salespersons, and property managers.

**Investigations**

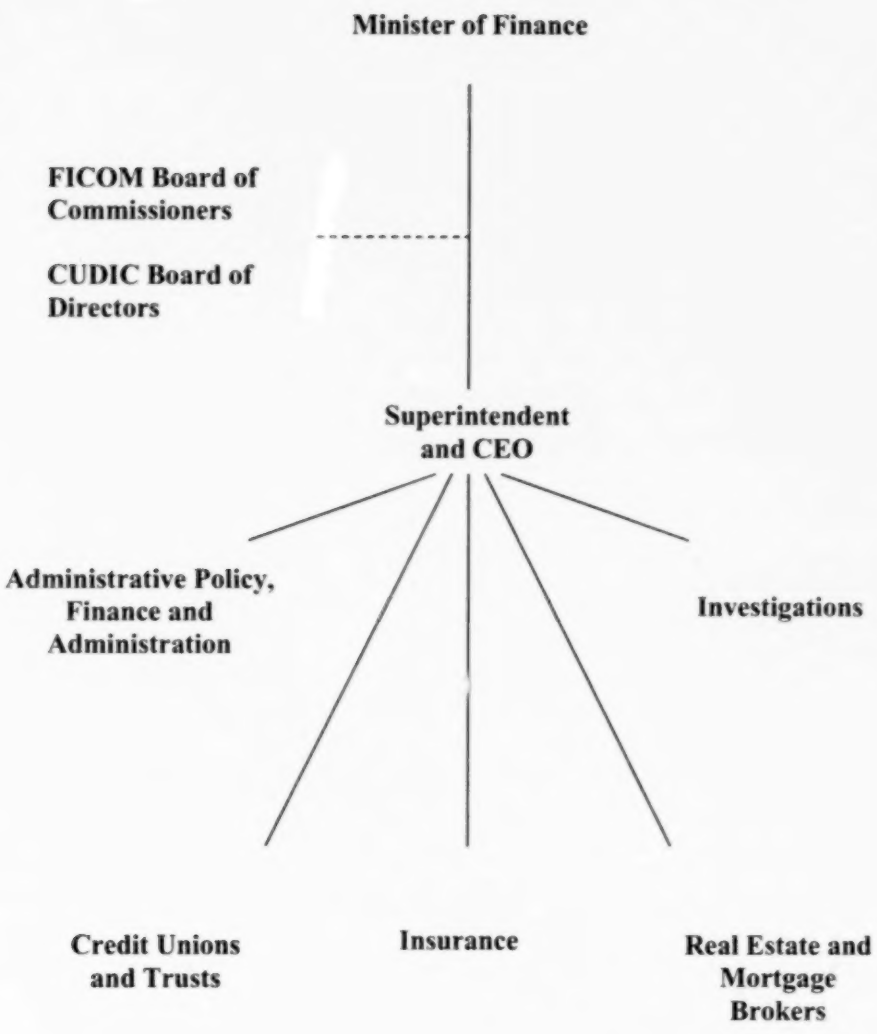
Responsible for investigating statutory breaches of all acts administered by FICOM as well as undertaking investigations into related criminal matters.

**Administrative Policy, Finance and Administration**

Responsible for support to the other departments, including research and policy development, communications, accounting, human resources, information systems, and co-ordination of Freedom of Information Act requests. For budgeting purposes, the CEO's office is included here.

For reference, an organizational chart is included on the following page.

## ORGANIZATIONAL CHART




## CORE BUSINESS AREAS

FICOM has three Core Business Areas: Credit Unions and Trust Companies, Insurance, and Real Estate and Mortgage Brokers. The Administrative Policy, Finance and Administration, and Investigations departments support these functions.

## ORGANIZATIONAL GOALS

As part of the Core Services Review, the government has endorsed the regulatory role of FICOM and indicated support for the organization's strategic objectives. As organizational goals, FICOM has four ongoing regulatory responsibilities and five strategic objectives.

**Regulatory Responsibilities**

1. Effectively regulate financial institutions authorized to conduct business in British Columbia.
2. Ensure regulatory compliance by real estate developers, real estate agents and salespersons, property managers, and mortgage brokers.
3. Identify and pursue inappropriate, unauthorized, and criminal activity involving the financial services sector.
4. Effectively manage the Credit Union Deposit Insurance Corporation (CUDIC) fund.

**Strategic Objectives**

1. Eliminate unnecessary regulatory burden on institutions.
2. Streamline and harmonize regulations with other jurisdictions.
3. Provide information to assist the public in detecting fraudulent or other inappropriate business practices.
4. Develop a human resources plan to resolve staffing issues and recruitment problems.
5. Develop and implement new information systems to meet FICOM's information needs as a risk-based regulatory framework is introduced.

## SECTION 5: PERFORMANCE MEASURES AND TARGETS

FICOM is currently designing and implementing a new risk-based regulatory framework to replace the historic compliance-based regulatory model. This move represents a major transformation of the organization: departments will be realigned, positions will be altered, communications and information systems will be updated, and the information requested of institutions modified. While the fundamental regulatory responsibilities will remain largely the same, the way that these responsibilities will be administered will be changing dramatically.

The challenges for FICOM that this move involves include the development of a new performance management system. This task is being addressed in phases by FICOM, as the new framework is developed and implemented. The focus of the first phase has been the updating of organizational goals and the development of a first series of performance measures. As the new framework is introduced, new performance measures will be developed, with particular attention to distinct output, outcome and efficiency measures.

The performance measures identified in this first phase are grouped in accordance with the organizational goals identified for FICOM. Two charts are included on the following pages: one for FICOM's regulatory responsibilities and one for FICOM's strategic objectives. FICOM's regulatory responsibilities relate to the overall condition of the financial services sector in British Columbia, while FICOM's strategic objectives relate to the introduction of a risk-based regulatory framework and other changes being undertaken by the organization.

## FICOM'S REGULATORY RESPONSILBILITIES

| Goal | Performance Measurement | 2002-2003 | 2003-2004 | 2004-2005 |
|---|---|---|---|---|
| Effectively regulate financial institutions | Survey of consumer confidence | Comparison to benchmark | Comparison to benchmark | Comparison to benchmark |
| | Survey of Financial Institutions | Comparison to benchmark | Comparison to benchmark | Comparison to benchmark |
| | Migrate from compliance-based framework to a risk-based framework | Merge Credit Union and Examinations Depts. | Develop and refine new monitoring and examination systems | Review new programs and make adjustments as required |
| | Cost of regulation per $1000 of insurance premium | Time-series comparison to inflation | Time-series comparison to inflation | Time-series comparison to inflation |
| | Credit Union fees and assessments per $1000 of deposits | Time-series comparison to inflation | Time-series comparison to inflation | Time-series comparison to inflation |
| | | Comparison to other jurisdictions | Comparison to other jurisdictions | Comparison to other jurisdictions |
| Ensure regulatory compliance by real estate developers, real estate agents and salespersons, property managers, and mortgage brokers. | Investigate all complaints of non-compliance and/or criminal activities | 100% of complaints received are investigated | 100% of complaints received are investigated | 100% of complaints received are investigated |
| Identify and pursue inappropriate, unauthorized, and criminal activity involving the financial services sector. | All complaints/activities requiring investigation are reviewed. | 100% of complaints/activities requiring investigation are reviewed. | 100% of complaints/activities requiring investigation are reviewed. | 100% of complaints/activities requiring investigation are reviewed. |
| Effectively manage CUDIC | Size of fund committee to report on appropriate size | TBD | TBD | TBD |
| | Review performance of CUDIC investment managers. | TBD | TBD | TBD |

## FICOM's Strategic Objectives

| Goal | Performance Measurement | 2002-2003 | 2003-2004 | 2004-2005 |
|---|---|---|---|---|
| Eliminate unnecessary regulatory burden on institutions * | Review and rewrite the Financial Institutions Act | Release discussion paper | Draft new legislation | Proclamation of new Act |
| Streamline and harmonize regulations with other jurisdictions ** | Chair CCIR working group on Streamlining and Harmonization<br><br>Classes of Insurance Project | Identify issues that can be streamlined and harmonized | Develop | Implement |
| Provide information to assist the public in detecting fraudulent or other inappropriate business practices | Develop a communications plan | Plan to be written | Plan implemented | Comparison to status quo at outset |
| Develop a human resources plan to resolve staffing issues and recruitment problems | Develop a human resources plan | Plan to be written | Plan implemented | Comparison to status quo at outset |
| Develop and implement new systems to meet FICOM's information needs as a risk-based regulatory framework is introduced | Complete workflow analysis, develop applications, and document new processes | Initiate Phase 1 workflow analysis | Implement Phase 2 workflow analysis | Complete workflow analysis, implement final applications, and document new processes |

* FICOM is dependent upon assistance from other branches of the provincial government to complete this project.
** FICOM must reach agreement with other jurisdictions on these initiatives, which may be quite difficult to achieve.

## SUMMARY EXPENDITURE PLAN ($000)

| Core Businesses | 2001/02 Base Data | 2002/03 Estimates | 2003/04 Target * | 2004/05 Target * |
|---|---|---|---|---|
| **Operating Expenditures** | | | | |
| Credit Unions and Trusts | 1,989 | 2,025 | 2,127 | 2,170 |
| Insurance | 539 | 704 | 769 | 784 |
| Investigations | 1,179 | 1,190 | 1,229 | 1,254 |
| Real Estate and Mortgage Brokers | 1,153 | 1,177 | 1,100 | 1,122 |
| Administrative Policy, Finance & Admin. | 2,531 | 2,444 | 3,138 | 3,201 |
| Recoveries | (7,390) | (7,539) | (8,362) | (8,529) |
| **Totals** ** | 1 | 1 | 1 | 1 |
| **FTEs** | | | | |
| Direct | 81 | 81 | 81 | 81 |
| Indirect | | | | |

* Targets forecasted at September 30, 2002

** Funding for FICOM is provided in the provincial government main Estimates ("the Budget") for the Ministry of Finance. A nominal net expense of $1,000 is authorized. This funding mechanism requires that FICOM's expenditures be recovered from fees and assessments.